

FINANCIAL POLICIES

Adopted November 27, 1989

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CP 10.01 FINANCIAL POLICIES PURPOSE, MISSION, AND GOALS

10.01.010 Purpose

To underscore the responsibility of the City of Corvallis to its citizens for the long-term care of public funds and wise management of municipal finances while providing adequate funding for the services desired to achieve a sense of well-being and safety by the public and maintaining the community's public facilities and infrastructure to enhance the long-term livability and economic vitality of Corvallis.

10.01.020 Mission

To provide policy direction from the City Council to the City of Corvallis organization about sustainable financial management to ensure the City continues to provide desired services to the community in perpetuity.

10.01.030 Goals

To meet this mission, the goals for financial management include the following:

- A. To protect the policy-making ability of the City Council by ensuring that important policy decisions are not controlled by financial problems or emergencies.
- B. To enhance the policy-making ability of the City Council by providing accurate information on program costs.
- C. To assist sound management of the City by providing accurate and timely information to the City Council and the public on the City's financial condition.
- D. To provide sound principles, reports and analyses to guide the important decisions of the City Council and of management which have significant fiscal impact.
- E. To set forth operational principles which minimize the cost of government and financial risk, and safeguard the City's assets.
- F. To employ revenue policies which prevent undue or unbalanced reliance on certain revenues, which distribute the costs of municipal services fairly, and which provide adequate funds to operate desired programs.
- G. To provide adequate resources to operate and maintain essential public facilities and the City's infrastructure.
- H. To protect and enhance the City's credit rating and prevent default on any debt issue of the City.
- I. To ensure the legal use of all City funds through a sound system of administrative policies and internal controls.

10.01.040 Background

Municipal financial operations have a wide variety of oversight or standard setting agencies, including multiple departments within both State and Federal governments, the Securities and Exchange Commission, and the Governmental Accounting Standards Board. The City of Corvallis manages public funds within all of these oversight agency requirements. These financial management policies, designed to ensure the fiscal stability of the City of Corvallis municipal corporation, provide guidance in financial management when oversight agencies are otherwise silent or to reiterate best practices that may be codified by another entity. The City Council's Financial Policies have been reviewed and updated each year since they were first adopted to ensure the policy direction is current.

10.01.050 Achieving Financial Policy Goals

To achieve and maintain the goals outlined in these policies, the Finance Department will conduct an annual analysis of projected financial condition and key financial indicators. This budget capacity analysis shall be used to inform the next budget development process.

It is the focus of this analysis to:

- A. identify the areas where the city is already reasonably strong in terms of protecting its financial condition;
- B. identify existing or emerging problems in revenue sources, management practices, infrastructure conditions, and future funding needs;
- C. forecast expenditures and revenues for the next three to seven years, with consideration given to such external factors as state and federal actions, the municipal bond market, management options being explored and used by other local governments; and
- D. review internal management actions taken during the last budget cycle.

10.01.060 Review & Update

The Financial Policies shall be reviewed by the Finance Director annually in November and updated as appropriate.

CP 10.02 FUND BALANCE POLICIES

10.02.010 Purpose

Fund balance is used to provide stable resources for times when service levels might otherwise be impacted by taxes or fees that temporarily underperform, or to cover one-time unexpected expenditures. Maintaining a positive ending fund balance is a best financial management practice, and is important to maintain the City's credit rating, and to meet state law requirements for no deficit spending.

10.02.020 Background

Budgetary fund balance is a critical component of the City's financial management policies. Large ending fund balance targets may be viewed as reducing resources that could be used to provide direct services to citizens; small ending balances may be viewed as leaving the City open to too much risk from emergencies or temporary economic downturns and may result in downgrades to the City's credit rating that would increase the cost of borrowing. Residents' sense of well-being is enhanced when the City is able to provide a consistent level of service from year-to-year.

This policy is designed to provide guidance for maintaining an ending fund balance that is adequate to manage risk while maximizing the services provided to citizens.

The budgetary ending fund balance describes the net financial assets of governmental funds; in lay terms it represents the net revenues in excess of expenditures since the fund's inception. Actual fund balances for each fund shall be reported in the Comprehensive Annual Financial Report, issued as of June 30 of each fiscal year. Budgetary fund balances shall be reported in the annual budget, and shall be projected for each operating fund as part of the financial planning process to prepare the budget each year.

10.02.030 Fund Balance Definitions

The Governmental Accounting Standards Board (GASB) has defined fund balance categories for financial reporting to be classified as defined in the glossary attached to these Financial Policies.

The City of Corvallis will use the GASB's definitions of Fund Balance for the Comprehensive Annual Financial Report (CAFR) and for all other financial reporting. For all financial planning purposes, the term Budgetary Fund Balance will be used and will include any portion of the fund balance that is available for appropriation. The portion of the fund balance that is not available for appropriation will be identified as a Reserved Balance.

10.02.040 Fund Balance Policy

A. General Fund – Budgetary Fund Balance for Financial Planning Purposes

1. The City Council has established the fund balance reserve target for the General Fund to total three months of payroll expenses.
2. The City Council shall appropriate 10% of the target fund balance amount each fiscal year as a contingency to be used for unanticipated expenditures such as costs associated with a response to a disaster, or to meet unanticipated increases in service delivery costs. Use of the contingency is expected to be infrequent. The City Council must authorize expenditure of any contingencies via a resolution.
3. The City Manager will review the City's financial status each year and develop a budget process that is designed to meet Oregon Local Budget Law requirements, taking into account the City's projected financial status for the budget year, including:
 - a) the current budgetary fund balance;
 - b) cash flow requirements within the fund to support expenditures, including up to three months of payroll costs;
 - c) future capital needs;
 - d) significant revenue and expenditure trends including the HNA;
 - e) susceptibility of the fund's operations to emergency or unanticipated expenditures;
 - f) credit worthiness and capacity to support debt service requirements and covenants;
 - g) legal or regulatory requirements affecting revenues, expenditures, and fund balances;
 - h) reliability of outside revenues; and
 - i) any other factors pertinent to the fund's operations.
4. Should the projected ending fund balance reserve for the budget year be lower than the City Council's target, the following strategy will be implemented:

- a) For times when the fund balance reserve is lower than the target as the result of structural/systemic changes, the fund balance shall be re-built over a period of no more than:
 1. five years if the fund balance reserve is less than 50 percent of the target. The balance shall be re-built to achieve an ending fund balance of no less than 10 percent of the target in the first year; 25 percent in the second year; 45 percent in the third year; 70 percent in the fourth year; and 100 percent in the fifth year. This strategy is specifically designed to allow for consideration/development of a new revenue source prior to significant service reductions taking effect should the City Council wish to consider revenue alternatives.
 2. three years if the fund balance reserve is between 50 percent and 100 percent of the target. The balance shall be rebuilt to achieve an ending fund balance of no less than 60 percent at the end of the first year; 75 percent at the end of the second year, and 100% at the end of the third year.
- b) For times when the fund balance reserve is lower than the target as the result of short-term poor experience (i.e., costs to respond to a natural disaster; use of contingencies for unanticipated expenditures), the City Manager shall recommend a strategy for re-building the fund balance reserve taking into account the following criteria:
 1. the cause of the poor experience;
 2. the City's ability to control/change the causing factor;
 3. the impact to services to achieve an immediate re-build of fund balance;
 4. the likelihood the causing factor will end and revenues/expenditures will return to normal levels within one year; and
 5. the likely amount of time required to re-build the fund balance if no additional changes in services/revenues occurred and/or one-year is not a viable time frame for proposed solutions.
5. Should the projected ending fund balance be above the target, the City Manager will make a recommendation to the City Council whether to reserve those monies above the target for:
 - a) one-time capital expenditures or reserves for future capital expenditures which do not significantly increase ongoing City costs;
 - b) undesignated assigned or committed balances for future basic operations;
 - c) other one-time costs; and/or
 - d) ongoing or new City programs, provided such action is considered in the context of Council approved multi-year projections of revenue and expenditures.

B. Appropriate Budgetary Fund Balance – all other funds

1. Each operating fund shall have a positive budgetary ending fund balance for the budget year under discussion.
2. The Finance Director shall recommend the appropriate ending budgetary fund balance for each fund as part of the budget development process. The Finance Director shall take into account the following factors:

- a) the current budgetary fund balance;
 - b) cash flow requirements within the fund to support expenditures, including up to three months of payroll costs;
 - c) future capital needs;
 - d) significant revenue and expenditure trends including the HNA;
 - e) relative rate stability from year to year for enterprise funds;
 - f) susceptibility of the fund's operations to emergency or unanticipated expenditures;
 - g) credit worthiness and capacity to support debt service requirements and covenants;
 - h) legal or regulatory requirements affecting revenues, expenditures, and fund balances;
 - i) reliability of outside revenues; and
 - j) any other factors pertinent to that fund's operations.
3. The minimum fund balance targets for any given non-property tax fund shall be no less than five percent of current revenue.
4. Ending Budgetary Fund Balance Below Recommended – All Other Funds
- If the annual budget is recommended by the Budget Commission and accepted by the City Council to be adopted with a budgetary fund balance below either the minimum or the recommended ending budgetary fund balance in any fund, the budgetary ending fund balance for the then current fiscal year will be re-calculated as soon as the audit work for the prior fiscal year is complete. If at that point, the audited ending fund balance contributes to a budgetary fund balance which is lower than this policy would dictate, staff shall develop a plan for City Council consideration through the Administrative Services Committee that addresses the shortfall.
5. Ending Budgetary Fund Balance Above Recommended
- In the event the ending budgetary fund balance is higher than either the minimum or recommended level, the difference may be used to fund the following activities:
- a) one-time capital expenditures or reserves for future capital expenditures which do not significantly increase ongoing City costs;
 - b) undesignated assigned or committed balances for future basic operations;
 - c) other one-time costs; and/or
 - d) ongoing or new City programs, provided such action is considered in the context of Council approved multi-year projections of revenue and expenditures.

CP 10.03 REVENUE POLICIES

10.03.010 Purpose

These policies provide direction in the management and oversight of existing revenue sources and for the development of new revenue sources.

10.03.020 Background

A significant portion of the City's revenues come from taxes, charges for service and fees. Some of these revenue sources are governed by the Oregon Constitution/Statutes, federal law, or regulations promulgated by a state, federal, or other agency; others are assessed solely through the City's home rule authority. Revenues are critical to the City's financial operations as they provide the resources necessary to provide services at the level the community desires. However, the City Council also recognizes that the majority of the revenue received by the City comes from its own citizens and the ability to pay increasing amounts may make Corvallis less livable, especially for low income residents. Revenue decisions are complex and must take into account a variety of factors. The Revenue Policies are designed to provide guidance to staff and the City Council as new revenue sources or rate increases for existing revenues are considered.

10.03.030 General Revenue Policies

- A. Revenue Diversity and Stability -- The City will strive to maintain a diversified and stable revenue system to shelter the government from short-run fluctuations in any one revenue source and ensure its ability to provide ongoing service. In particular, the City will seek alternatives to the property tax for general government services.
- B. Restricted Revenues -- Restricted revenue shall only be used for the purposes legally permissible and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated and accounted for as such.
- C. Capital Improvement Funding -- Revenue for capital improvements shall be used to finance only those capital improvements identified in the funding plan (i.e., bond or grant funded projects) that are consistent with the capital improvement program and local government priorities, and where the operating and maintenance costs have been included in operating budget forecasts. Revenue restricted for specific purposes will be expended consistent with those restrictions.
- D. One-time Revenue -- One-time revenue includes fund balances and grants or other sources which have a specific time limit and/or reason for expenditure. One-time revenue will be used for one-time expenses whenever possible; in some cases one-time revenue may be used for costs the City would have incurred for a program or service, regardless of the receipt of the one-time revenue. If one-time revenue is considered for ongoing expenditures (such as adding staff) the Budget Commission or City Council will balance the need for the additional ongoing expenditures with the on-going ability to pay prior to approving the program.
- E. Unpredictable Revenue -- Unpredictable revenue, which includes development related revenue such as Systems Development Charges (SDC), Public Improvement by Private Contractor fees, Development Review, Plan Review and Inspection Permit revenues, will be closely monitored through the year. Capital projects to be constructed with SDC monies will not be initiated until SDC revenue is available or another financing alternative is developed.
- F. Revenue Monitoring -- Revenues will be monitored monthly for performance compared to both the annual budget and the anticipated timing of revenue receipts. Operations funded partially or wholly from unpredictable revenue will be monitored monthly and mitigating action will be taken if revenues are not received as expected.
- G. Collections -- The City shall manage its revenue collections through a policy that actively pursues collection of all revenues owed to the City.

H. Charges for Services -- Fees and charges for service are assessed to specific users where the user pays all or a portion of the costs to provide the service. When assessed as a fee, the charge generally grants the payer permission or a license to do a specific activity (i.e., franchise fees authorize use of the public right-of-way; a liquor license fee authorizes the license holder to sell liquor). When assessed as a charge for service, the charge is for a specific service, directly used by the payer (i.e., the admission fee at the swimming pool is only assessed to the person going swimming).

1. Fees and charges other than those identified elsewhere in City Council policy or via Corvallis Municipal Code will use the following criteria to determine the ratio of cost recovery:
 - a) Whether the person paying the fee can avoid it;
 - b) Whether the program supported by the fee is designed to benefit the entire community or only a small segment of the population;
 - c) Whether the fee is set high or low to incentivize something (i.e., change behavior);
 - d) Whether the fee should be earmarked for a specific use or should be treated as a general revenue available for operations;
 - e) Whether there are extenuating circumstances where the Council believes the fee should not cover all of the costs associated with the service; and
 - f) Whether the fee costs less to collect/administer than the revenue it brings in.
2. Fees and charges are reviewed annually, and are updated via Council action when necessary. A revenue manual listing all such fees and charges of the City shall be maintained by the Finance Department and updated concurrent with the review.
3. A fee shall be charged for any service that benefits limited interests within the community, except for basic, unavoidable human needs type services provided to persons with limited ability to pay.
4. Historically, the City Council has provided very limited tax and fee exemptions; rather, the City Council has elected to use General Fund monies to pay the fees/charges for non-profit entities that request exemptions when the cause matches the City's goals.

I. Systems Development Charges (SDC) – SDC rates are set via resolution and are designed to cover the costs of infrastructure necessary to provide services for future growth. The list of projects eligible for SDC funding shall be updated when facility plans are updated or amended, or when a project not listed in a facility plan is identified and will provide additional capacity to serve growth. The overall SDC program methodology and population service scenario shall be reviewed approximately every ten years.

10.03.040 Property Taxes

The City levies property taxes for operations and for general obligation debt service in compliance with the Oregon Constitution and Oregon Revised Statutes. The City has a permanent tax rate of \$5.1067 per \$1,000 of assessed value; the City may have a local option property tax levy for a limited period of time. Revenue for a local option levy will be accounted for according to the ballot language for the levy. Revenue from property taxes levied for general obligation debt service shall be for specific series of debt, levied and accounted for in accordance with state legal requirements. Revenue from the City's permanent tax rate shall be accounted for in the General Fund.

10.03.050 Utility Fees (Water, Wastewater, Storm Water)

- A. Utility Fee Basis -- Utility user charges for each of the three City utilities will be based on the total cost of providing the service (i.e., set to fully support the total direct, indirect, and capital costs) and are established so that the operating revenues of each utility are at least equal to its operating expenditures, reserves, debt coverage and annual debt service obligations, and planned replacement of the utility's facilities.
- B. Annual Rate Review -- Staff shall conduct an annual comprehensive rate review each fall for the Water, Wastewater and Storm Water funds for Council review. Rate increases will be targeted for implementation in February. Every effort shall be made to index/limit rate increases for the entire utility bill (water, wastewater, and storm water) to the rate of inflation (estimated at 2% to 3%) but not more than 7% in any one year unless federal or state mandate, judgment arising out of litigation, or Council approved policy needs dictate otherwise.
- C. Rate Adoption -- Utility rates will be adopted by ordinance and will be recorded in the Corvallis Municipal Code.
- D. Franchise Fees -- The City's Water, Wastewater, and Storm Water utilities will pay a franchise fee to the City's General Fund to compensate for the use of the public right-of-way. The franchise fee will be equal to 5% of the utility's gross operating revenue each year, net of interest, intergovernmental monies, miscellaneous water service fees, permit fees, SDCs, and turn-on service fees.

10.03.060 Parks and Recreation Department Fees

- A. Cost Recovery -- Parks and Recreation services are funded through a combination of user fees, property taxes, grants, and donations. Fees and charges shall be assessed in an equitable manner in accordance with the following fee and charge assessment schedule. Through a special initiative, services that provide recreational opportunities for populations with the fewest recreational alternatives (youth, limited income, senior adults, and families) may be more heavily supported by grants, donations, or property taxes than user fees to ensure that the population is well served by Parks & Recreation programs. Percentages shall be considered as guidelines; however, special circumstances, the nature and cost of each program, and persons to be served should be taken into consideration.
- B. Fee Model -- the following lists represent all categories of services currently provided or those which may be provided in the future by the Parks & Recreation Department. The model is based upon the degree of benefit to the community (Tier 1 -- mostly a community benefit) or individual (Tier 5 -- mostly an individual benefit) of the service provided, the values of the Corvallis community, and the vision and mission of the Parks & Recreation Department. This model and policy form the basis for setting fees and charges.
 - 1. Revenue positive cost recovery (Tier 5 services are targeted to recover a minimum of 200 percent of direct costs):
 - a) concession/vending
 - b) merchandise for resale
 - c) private/semi-private lesson
 - d) rentals -- private/commercial

- e) long-term leases
 - f) equipment rentals
 - g) trips
 - h) organized parties
 - i) drop-in childcare/babysitting
 - j) leased services – private/commercial
 - k) permitted services
2. Totally fee supported with no tax investment (tier 4 services are targeted to recover a minimum of 100 percent of direct costs, and some of these services may be appropriate for use of alternative funding sources such as grants, donations, and use of volunteers):
 - a) classes and programs – intermediate/advanced
 - b) leased services – non-profit/governmental agency
 - c) preschool
 - d) social clubs
 3. Primarily fee supported with little or no tax investment (tier 3 services are targeted to recover a minimum of 90 percent of direct costs, and some of these services may be appropriate for use of alternative funding sources such as grants, donations, and use of volunteers):
 - a) health services, wellness clinics, and therapeutic recreation
 - b) classes and programs – beginning/multi-ability
 - c) tournaments and leagues
 - d) rentals – non-profit/governmental agency
 - e) specialized events/activities
 - f) camps/after school care
 - g) leased services – affiliates
 - h) work study/internship/community service program
 4. partial tax investment with minimal to partial fee support (tier 2 services are targeted to recover a minimum of 45 percent of direct costs, and many of these services may be appropriate for use of alternative funding sources such as grants, donations and use of volunteers):
 - a) life/safety classes
 - b) rentals – affiliates
 - c) supervised park/facility
 - d) community-wide events
 - e) volunteer program

5. full tax investment with little or no fee support (tier 1 services are targeted to recover zero percent of direct costs, although some of these services may be appropriate for use of alternative funding sources such as grants, donations, and volunteers):
 - a) non-supervised park/facility
 - b) inclusionary services
 - c) support services
- C. **Setting Fees** – The Parks & Recreation Department Director shall set fees for programs and services in compliance with the targets listed above. Fees shall be adjusted during the course of each year as needed to ensure the cost recovery targets are achieved. The following pricing strategies will be used by the Parks & Recreation Director in setting fees:
 1. **Market pricing:** a fee based on demand for a service or facility or what the target market is willing to pay for a service. One consideration for establishing a market fee is determined by identifying all providers of identical service (i.e., private sector providers, municipalities), and setting the highest fee. Another consideration is setting the fee at the highest level the market will bear.
 2. **Competitive pricing:** a fee based on what similar service providers or close proximity competitors are charging for service. One consideration for establishing a competitive fee is determined by identifying all providers of an identical service (i.e., private sector providers, municipalities), and setting the mid-point or lowest fee.
 3. **Cost recovery pricing:** a fee based on cost recovery goals within market pricing ranges.
- D. **Fee Review** -- The Park and Recreation Department shall conduct an annual comprehensive review of cost recovery targets in compliance with these policy targets; this review will be forwarded to the Parks, Natural Areas and Recreation Board which will forward their comments to the City Council via the Human Services Committee..
- E. **Use of Volunteers** -- Through an aggressive volunteer recruitment program, the Parks and Recreation Department shall seek to minimize the amount required for full tax investment with little to no fee support (tier 1 services) and partial tax investment with minimal to partial fee support (tier 2 services).
- F. **Alternate Funding Sources** -- Solicitation of funds through donations, fund raising events, non-traditional sources, and various other modes shall be encouraged by the Parks, Natural Areas and Recreation Board and other advisory committees. Funds collected for any special purpose shall be earmarked for that purpose.

10.03.070 Ambulance Fees

- A. **Policy** -- It is the intent of the City to provide responsive, efficient and self-funded emergency medical services as the Benton County designated service provider to the Benton County Ambulance Service Area, including all residents of the City.
- B. **Rate Changes** -- Staff shall review ambulance rates annually no later than February 28 to ensure the rates reflect changes in the direct costs of service. In reviewing rates, staff will consider the historic and projected costs of service, service demands, changes in fixed and variable costs, market rates, and changes in service requirements or mandates. The City shall notify Benton

County of proposed fee increases or decreases at the beginning of the City's formal budget review process.

1. Proposed rate changes will be submitted to the City Council via the Administrative Services Committee for review and recommendation to the full Council no later than April 1 of each year. If no rate change is recommended, staff will note the fact in a Council Report.
 2. The Council shall adopt rate adjustments by resolution. Following Council adoption, the new rates will go into effect by July 1 of each fiscal year.
 3. Notification will be issued to the public 30 days prior to the July 1 deadline. Customers will be notified of rate changes via advertisements in the local newspaper.
- C. Special Rate Reviews -- If, at any time during the fiscal year, estimated costs of service exceed available revenue, the City Manager may conduct a special rate review. In conducting such reviews the City Manager would follow the above procedures. In this instance, rate adjustments could take place at any time within the fiscal year, with 30 days' public notice.

10.03.110 Grants

- A. Grant Opportunities -- The City shall aggressively pursue grant opportunities; however, before accepting grants, the City will consider the current and future implications of accepting the monies.
- B. Federal Funds -- Federal funds shall be actively sought by the City. The City will use these funds to further the applicable national program goal. Because federal funds are not a guaranteed revenue source and are intended for a specific purpose, they will not be relied upon as an alternative source of capital improvement funds unless the federal grant is specifically for capital projects. Use of federal funds shall support City goals and services.
- C. Grant Review -- In reviewing grants the department director and Finance Director shall evaluate each grant offer and make their recommendation to the City Manager after considering:
 1. the amount of the matching funds required;
 2. in-kind services that are to be provided;
 3. length of grant and consequential disposition of service (i.e., is the City obliged to continue the service after the grant has ended?); and,
 4. the related expenditures including administration, record keeping, and auditing expenditures.
- D. Single Audit -- The annual audit by the City's independent auditors will include all required audit procedures for grant compliance as specified in the federal government's Office of Management and Budget OMB Circular A-133.

10.03.120 Gifts, Donations and Bequests

- A. Use of Gifts, Donations & Bequests -- Gifts, donations and/or bequests given to, and accepted by, the City for the use of any of its departments or divisions shall be used solely for the purpose intended by the donor. Unrestricted gifts will be expended on the recommendation of the related advisory board.
- B. Evaluation -- Gifts, donations, and bequests will be evaluated to determine what, if any, obligations are to be placed upon the City. Gifts, donations, and bequests will be considered as

"over and above" basic City appropriations unless the gift, donation or bequest is for an already planned and budgeted service or program.

CP 10.04 EXPENDITURE POLICIES

10.04.010 Purpose

To provide direction for developing the annual budget, monitoring the City's financial status throughout the year, and ensuring that the City's monies are expended to provide services to citizens.

10.04.020 Background

The City expends a significant amount of money each year to provide services that are important to citizen's sense of well being and safety and to improve the livability of the community. The largest portion of expenditures is for the operating costs of the organization. These costs include all of the salaries/wages and related benefits for City staff, along with materials, services and capital outlays necessary to perform the basic functions of the City. Additional costs associated with capital projects (infrastructure investments) and debt service are part of the annual budget, based on specific plans for both.

10.04.030 Operating Budget -- Pay-As-You-Go

- A. Pay-As-You-Go -- The City shall attempt to conduct its operations from existing or foreseeable revenue sources. Achieving pay-as-you-go requires the following practices:
 - 1. current direct and indirect costs for operations and maintenance will be controlled and will be funded with current revenues, and
 - 2. revenue and expenditure forecasts will be prepared annually for all operating funds prior to budget discussions.
- B. Cost Allocation Plan -- The Finance Director shall prepare a full cost allocation plan triennially to provide accurate, complete estimates of indirect service costs. The plan will be updated annually during budget development.
- C. Mandated Costs -- Costs attributable to mandates of other government agencies shall be included in the annual budget.

10.04.040 Budget Balance

The City Manager will prepare a budget for each fund each year where resources on a modified accrual basis either equal or exceed all expenditures in compliance with Oregon Administrative Rule 150-294.352(1)-(B)

- A. Resources available include all revenue anticipated in the budget year, including taxes, fees, charges for service, fines, intergovernmental payments, miscellaneous revenue, transfers, other financing sources, expendable reserves, and beginning fund balances.
- B. Expenditures include all planned expenditures for operations, inter-fund transfers, capital budget, debt service, and contingencies.

10.04.050 Budget Performance Reporting

- A. Quarterly Reports -- The Finance Director shall submit a Quarterly Operating Report (QOR) to the Budget Commission within 45 days of the close of the fiscal quarter. The QOR will be published on the City's web site for public review. The QOR will be reviewed by the Administrative Services Committee and be accepted by the City Council. At a minimum, the

QOR will include income statements developed on the modified accrual (budgetary) basis for all operating funds of the City, and may include other information such as the status of the City Council's Values and Goals and departmental performance information.

- B. Performance Indicators -- Where practical, the City shall develop and employ performance indicators that are tied to Council values and goals, as well as management objectives, to be included in the budget. Status of the measures will be reported in each QOR.

10.04.060 Maintenance, Repair & Replacement

- A. Master Plans -- The City shall maintain master plans for all major infrastructure systems. Master plans provide direction about system needs (such as pipe size and reservoir locations) for predicted population build out of the community. Infrastructure master plans are required for Parks, Transportation, Water Plant, Water Distribution system, Wastewater Plant, Wastewater Collection system, Storm Water system, and the Airport. The master plans shall be adopted by the City Council as amendments to the City's Comprehensive Plan.
- B. Master Plan Projects -- Projects identified via an infrastructure master plan will be scheduled based on the priority of the project as identified in the master plan and will be budgeted in the Capital Improvement Program (CIP) when resources are available to implement the project and the project will result in the acquisition of a new or addition to an existing a capital asset; master plan projects that do not result in capital assets shall be included in the operating budget.
- C. Annual Inventory -- The City will conduct an inventory of all capital assets in conjunction with the annual audit. During the inventory, any excess wear and tear will be noted by staff and used to update replacement plans during the following budget preparation cycle.
- D. Equipment Replacement Plans -- Assets which are not part of a major infrastructure system or buildings and land, including vehicles, computers, and specialized equipment required for normal work (i.e., defibrillators, bullet proof vests), will be tracked by each department with replacement plans made for at least the financial planning period. These schedules will be updated annually in conjunction with the budget process.
- E. Stable Spending plans -- Every effort will be made to develop an equipment replacement schedule that results in a stable annual spending level. If spending levels cannot be stable and would result in a significant dollar amount variance year-over-year, staff will set aside in reserves an amount each year adequate to fully fund the project in the future. If monies are not set aside in reserves due to financial shortfalls:
 - 1. reserves will be re-built within three fiscal years to the level required to meet future replacement plans; or
 - 2. staff will develop a plan to borrow monies for critical equipment replacement.
- F. Equipment Replacement Budgeting -- Equipment to be replaced will be budgeted considering:
 - 1. Age of the asset and its manufacturer's recommended useful life;
 - 2. Wear and tear on the asset;
 - 3. Environmental conditions which may shorten or lengthen the useful life of the asset;
 - 4. The cost/benefit to complete routine maintenance and delay replacement;
 - 5. Availability of service and/or parts; and

6. The cost/benefit of early replacement with more efficient and/or less expensive technology.
- G. Facility Maintenance -- The facility maintenance schedule for major maintenance or replacement projects for all City-owned buildings will be updated annually. The primary goal of the plan is to complete maintenance projects prior to system failures that would cause a decrease in service levels to citizens. Criteria for including projects are the same as those identified in 10.04.060.F.
- H. Maintenance Costs from the CIP -- Projects included in the proposed CIP will identify the anticipated operating costs or savings associated with the project. Estimated operating costs from CIP projects will be included in all years of the financial plan for the appropriate fund prior to approval of the CIP by the CIP Commission, Budget Commission or City Council.

10.04.070 Personnel Services

- A. Compensation -- The City Council has a separate policy on compensation that provides policy direction and guidelines for labor negotiations and for the City Manager as it relates to compensation for exempt employees.
- B. Compensation Budget -- total projected compensation shall be budgeted in compliance with approved bargaining unit agreements. Compensation for exempt employees shall be budgeted in compliance with the City Manager's recommendation for these positions.
- C. Changes in Full Time Equivalents (FTE) -- Changes in the FTE shall be identified in the summary financial data in the Budget each year. This summary will include data by department, and a list of positions added, deleted, or approved but unbudgeted for the year.
- D. Vacant Positions -- The City shall not carry vacant budgeted positions for more than one fiscal year without the Department Director identifying a strategy for the position.

10.04.080 Transfers

- A. General Fund Transfers -- To the maximum extent feasible and appropriate, General Fund transfers to other funds shall be defined as payments intended for the support of specific programs or services. Amounts not needed to support such specific program or service expenditures shall be transferred back to the General Fund, unless Council directs the transfer to be used for other purposes.
- B. Transfer Reconciliation & Cash Flow -- Transfers for specific programs or projects, or to support special operations, should occur on the basis of cash flow needs of the program or service being supported. A reconciliation of actual transfers against budgeted transfers will be included in the year-end audit process.
- C. Advances -- Where it is necessary to make a one-time advance of General Fund monies to another fund, this action shall occur under the following conditions:
 1. The advance is reviewed, prior to the transfer of funds, by the Administrative Service Committee.
 2. All excess cash balances in the fund receiving the advance shall be invested for the benefit of the General Fund, if allowed by federal and state law and regulations, as long as the advance is outstanding.
 3. Should the borrowing fund accumulate an unexpected unrestricted balance, this excess shall be used first to repay the advance.

4. At the time of closing out the fund, assets net of liabilities of the fund equaling the unpaid portion of the advance revert to the General Fund, if allowed by federal, state or local law.
5. For short-term cash deficits in funds other than the General Fund during the course of the year, short-term loans are preferred to advances, except in cases where the receiving fund is legally precluded from paying interest on loans, or where loan transactions would be too numerous and costly to be cost effective.

10.04.090 Contingency – Non-General Fund

- A. Contingency Amount -- To meet emergency conditions, the budget shall provide for an appropriated contingency in each fund other than the General Fund of at least 2% of estimated annual operating revenues. All governmental and enterprise funds shall maintain a contingency. The contingency shall be exclusive of all reserves.
- B. Contingency Use -- Use of the contingency should be infrequent and for unanticipated expenditures such as costs associated with a response to a disaster, or to meet unanticipated increases in service delivery costs. The City Council must authorize expenditure of any contingencies via a resolution.
- C. Contingency in Excess of 2% -- The Finance Director may recommend a contingency in excess of 2% of current revenue in specific funds to address specific needs. When this occurs, the Finance Director will provide the Budget Commission and City Council with information regarding the reasons for the recommendation.
- D. Contingency Below 2% -- Where correction of a fund balance deficit causes the contingency to be budgeted below 2% of operating revenue, a gradual correction of the problem over several years is preferable to a one-time jump in rates, or substantial decreases in other expenditure plans.

CP 10.05 Capital Improvement Program (CIP)

10.05.010 Purpose

To maintain the City's investment in infrastructure, this policy provides direction for the development and implementation of the annual CIP .

10.05.020 Background

The City has a significant investment in the infrastructure necessary for the general public's use. The infrastructure systems – streets, bikeways and sidewalks, water treatment plants and distribution system, wastewater treatment plants and collection system, storm water conveyance system, airport, parks, recreation facilities, open spaces, and municipal facilities – are important to the general well-being of the community. The City maintains and enhances the infrastructure systems by developing long-term plans and securing the funding necessary to implement the plans. The Capital Improvement Program is developed to advise the community of the plans for maintaining the public investment, and to ensure the resources are available to invest when the community requires them.

10.05.030 Capital Improvement Program

- A. Definition of a Capital Project -- A capital project must:
 1. cost more than \$25,000, and
 2. be a permanent addition to the capital assets of the City, and

3. purchase land, or
 4. construct a new building, or
 5. remodel or add to an existing building, or
 6. construct/install public infrastructure, or
 7. replace existing infrastructure.
- B. Full Costs Included -- For any project which meets the definition of a capital project, all costs for the project including design, land or right-of-way acquisition, appraisals, construction, construction management, furnishings, and legal or administrative costs will be included in the project budget.
 - C. Five-year CIP -- A five-year Capital Improvement Program (CIP) shall be developed and presented annually by staff to the CIP Commission, reviewed by the Planning Commission for compliance with the comprehensive plan, reviewed by the Budget Commission for compliance with long-term financial plans, and approved by the City Council. This plan shall contain all capital improvements from all funds and departments of the City. The first year of the plan shall constitute the next year's capital budget.
 - D. Existing Assets -- A high priority shall be placed on repair or replacement of capital assets when such assets have deteriorated to the point of becoming hazardous, incur high maintenance costs, are negatively affecting property values, and/or are no longer functionally serving their intended purposes.
 - E. Construction Standards -- Capital improvements constructed in the City shall be designed and built based on published construction standards which shall be periodically updated by the City Engineer. The construction standards will assure projects are built with an acceptable useful life and minimum maintenance costs.

10.05.040 Capital Improvement Maintenance

- A. Maintenance Standards -- Standards of maintenance to adequately protect the City's capital investments shall be developed and periodically updated. The annual budget will be prepared to meet established maintenance schedules.
- B. Operating Budget Impacts -- Future operating budget impacts for new capital facilities will be analyzed and estimates included in all years of the financial plans as part of considering a proposed capital project.

10.05.050 Capital Improvement Financing

- A. Appropriate Funding -- Within the limitation of existing law, various funding sources may be used for capital improvements. When capital projects are proposed, appropriate funding will be identified.
- B. Unspent Funds -- Upon completion of capital projects, the Finance Director shall certify any unspent funds from the project. The most restrictive project revenues shall be used first so that unused funds will have the fewest restrictions on future use. Unspent capital project funds, except bond funds, shall be returned to their original source. If there are unspent funds from a bond issue, those monies will be allocated according to stipulations in the bond indenture. In no case shall projects incur a funding deficit without the express approval of the City Council.

- C. Interest Earnings in the Capital Construction Fund (governmental fund) -- Interest earnings shall be allocated to each project based on the project's proportion of the cash balance in the fund. Projects which have a negative cash balance due to timing of reimbursements of grants or loans will not accrue interest revenue or an interest expense.
1. Interest earnings which are restricted due to the funding source (i.e., grant, bond issue) shall be spent in compliance with those restrictions.
 2. Interest earnings not otherwise limited will be considered the most restricted City funds in the project and will be spent first in compliance with Financial Policy 10.05.050.B.
- D. Interest Earnings in the Proprietary Fund Construction Components -- Interest earnings which are restricted due to the funding source (i.e., grant, bond issue) shall be spent in compliance with those restrictions. All non-restricted interest earnings will be accrued to the operating fund and will be available to spend on either operations or future capital projects.

10.06 Debt

10.06.010 Purpose

To proactively manage the City's existing and future debt issues in compliance with state and federal laws to maintain the City's capacity for future debt issues that may be required for infrastructure investment.

10.06.020 Background

The City of Corvallis operates on a pay-as-you go basis for most capital investment, matching resources with appropriate uses. Systems Development Charge revenue is used to fund capital investments that are required to increase the capacity of the City's infrastructure. Operating monies are used to pay for maintenance of existing infrastructure, and as leverage for grant monies to fund projects that may otherwise be unattainable. If necessary for some projects, reserves are built over time, or grants are sought to fund some capital investments. From time-to-time the City plans for a capital improvement project or a significant long-term operating expenditure (such as pension obligations) which is too expensive to finance with cash reserves or which needs to be completed before reserves can be developed. When this occurs, the City borrows monies. The City is conservative in its borrowing practices, and strives to maintain low debt-per-capita ratios when compared to similar sized cities.

10.06.030 Use of Debt Financing

- A. Long-term Debt -- The City of Corvallis shall only use long-term debt for capital projects that cannot be financed out of current revenues within the Revenue Policy guidelines for rate increases. Debt financing shall generally be limited to one-time capital improvement projects or to leverage a future significant cost the City must bear (such as pension obligations) and only under the following circumstances:
1. when the project's useful life is greater than or equal to the term of the financing;
 2. when project revenue or specific resources will be sufficient to service the debt; and,
 3. when analysis demonstrates that the debt will smooth or reduce costs over multiple years or the project is expected to benefit the citizens of Corvallis.
- B. Use of Debt Financing -- Debt financing shall not be considered appropriate for:
1. Current operating and maintenance expenses (except for issuing short-term instruments such as revenue anticipation notes or tax anticipation notes); and

2. Any recurring purpose (except as indicated above).
- C. Tax/Revenue/Bond Anticipation Notes -- Tax and revenue anticipation debt will be retired within the fiscal year issued, and bond anticipation notes will be retired no later than six months after the completion of the project.
- D. Short-term Debt -- Debt issued with a final maturity of one year or less from the time of issuance, which is outstanding at the end of the year, will not exceed 5% of net operating revenues (including tax anticipation notes but excluding bond anticipation notes.)

10.06.040 Limits on Debt Issuance

- A. Vote to Issue General Obligation Debt -- General obligation bonds require an affirmative vote prior to issuance. Constitutional limitations require a simple majority of votes for elections in May or November; for all other elections, a simple majority of registered voters must vote in the election, and of those voting a simple majority must vote affirmatively.
- B. Statutory General Obligation Bond Debt Limits -- Oregon Revised Statutes chapters 287 and 288 limit the outstanding general obligation principal indebtedness of the City other than bonds issued for water, sanitary or storm sewers to 3% of the true cash value of the taxable property within the City.
- C. Council Imposed Debt Limits -- The annual general obligation debt service for long-term issues (greater than five years), where the debt service is paid from property tax sources, shall not exceed 15% of the combined operating and capital budgets in the Governmental funds.
- D. Limited Tax General Obligation Bonds -- The outstanding principal debt for Limited Tax General Obligation Bonds (LTGO), non-self-supporting leases, and full faith and credit lease purchases, is limited to 1% of the true cash value of the taxable property in the City. Furthermore, annual debt payments for General Fund supported LTGO debt shall not exceed 5% of the combined operating and capital budgets in the Governmental Funds.
- E. Revenue Bonds -- Revenue secured debt obligations will be undertaken only after a study of the projected operating, maintenance, debt service and coverage requirements and the impact of these requirements on user rates have been completed. The outcome of the study will be shared with the City Council prior to issuing the debt.

10.06.050 Debt Issuance

- A. Timing of Debt Issuance -- The timing for each debt issue in association with the construction schedule will be carefully considered, using the following criteria:
 1. Projected cash flow requirements for the capital project;
 2. Cash reserves on hand to temporarily fund preliminary project expenses;
 3. Spend down schedules identified by the IRS to meet arbitrage limitations; and
 4. Market conditions.
- B. Competitive Sale -- All bonds will be sold at competitive sale unless it is in the City's best interest to sell at a negotiated sale. The City reserves the right to reject any and all bids at a competitive sale and sell the bonds at a negotiated sale if it is in the best interest of the City of Corvallis to do so.

- C. Refunding Bonds -- Refunding or advanced refunding bonds may be authorized by the City Council providing the issuance complies with the rules adopted by the State Treasurer and outlined in Oregon Revised Statutes.
- D. Annual Debt Payment Limits -- To maintain the City's credit rating and expenditure flexibility, the annual debt service payments the City must make on net direct long-term general obligation debt shall not exceed 10% of operating revenue. To achieve this goal, on a per issue basis, the City will structure its debt to pay no less than 33% of the principal on bonds sold during the first half of the repayment term.
- E. Overlapping Debt -- City staff shall endeavor to notify the City Council of the debt issuance plans of the City's overlapping taxing jurisdictions and the possible impact such debt plans may have on the City's debt capacity.
- F. Investment of Bond Proceeds -- Receipt of bond proceeds will be timed to occur in conjunction with construction. However, it is acknowledged that in most cases bond proceeds will not be fully expended as soon as they are received. The City shall invest the proceeds from debt issuance in the legally authorized investment instruments for local governments in Oregon to maximize interest earnings available for the capital project. Prior to choosing an investment instrument, staff will take into consideration projected cash flow of the project and the likelihood that Internal Revenue Service (IRS) spend down targets will be met or exceeded. The investment instrument(s) shall be chosen to maximize interest earnings and minimize any arbitrage penalties which may accrue within the established IRS regulations.

10.06.060 Leasing

Lease purchase financing shall be considered only when the useful life of the item is equal to or greater than the length of the lease, and a lease purchase is the most economical method of purchasing available. If the item may become technologically obsolete or is likely to require major repair during the lease purchase period, then the item should be either purchased with cash or placed on an operating lease.

10.06.070 Rating Agency Relationship

- A. Reporting -- The City shall maintain good communication with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.
- B. Compliance with SEC Rules -- The City will comply with all aspects of the Securities and Exchange Commission rule 15c2-12 pertaining to secondary market disclosure.

10.06.080 Debt Management Plan

- A. Debt Management Plan -- A Debt Management Plan shall be developed and updated prior to the issuance of any additional debt. The Debt Management Plan shall encompass all debt of the City which draws on the same financial resources, including, but not limited to:
 - 1. detail of the sources of funding for all debt;
 - 2. current and future debt capacity analysis;
 - 3. issues to be addressed for sound debt management;
 - 4. a contingency debt plan should any of the funding sources become unavailable in the foreseeable future; and

5. reporting as to the City's compliance with its debt policies.
- B. Review -- The Administrative Services Committee shall review the Debt Management Plan prior to the issuance of new debt and any recommendations made therein.

CP 10.07 RISK MANAGEMENT

10.07.010 Purpose

These policies set forth the over-arching guidance for the City's risk management program which is designed to minimize risk of incidents where damage could occur to citizens, employees, or the City's infrastructure or assets. Managing risk is critical to protect the community's assets and the organization's financial position.

10.07.020 Background

The City of Corvallis' basic operations have certain risks associated with them, which could have a significant financial impact if the risks were not managed. Risk Management policies are designed to identify and assess the risks, change factors that can be controlled to reduce risks, ensure that risk is transferred to others when appropriate, and provide insurance to mitigate against losses. The Risk Management program is comprehensive and addresses risks to City employees through appropriate training, and risks to staff and the general public through proactive maintenance and insurance coverage as well as holding adequate reserves for uninsured losses and programs designed to reduce factors associated with claims.

10.07.030 Risk Management Report

- A. Annual Report -- The City Manager shall annually prepare a Comprehensive Risk Management Report, including but not limited to:
 1. a summary of the past year's risk management claims,
 2. an identification of current and potential liability risks or activities potentially impacting the City's finances,
 3. specific strategies to address the risks identified, and
 4. a summary of the past year's safety and violence in the workplace activities/trainings.

10.07.040 Risk Management Program

- A. Program -- The City shall implement and maintain a Risk Management program designed to decrease exposure to risk. At a minimum, the program shall include:
 1. a safety program that emphasizes reducing risks through training and safe work habits,
 2. an annual examination of the City's insurance program to evaluate how much risk the City should assume, and
 3. other risk management activities, including review of all City contracts with respect to indemnification and insurance provisions.

10.07.050 Risk Management Fund

- A. Purpose -- The Risk Management Fund shall be used to provide for insurance coverage, uninsured losses in excess of deductible amounts, safety program expenses, and prudent reserves, contingencies and fund balances.

- B. Catastrophic Reserves -- The targeted balance for unappropriated catastrophic reserves shall be \$500,000 each year. Appropriated catastrophic reserves which are drawn down will be rebuilt the following fiscal year. Unappropriated catastrophic reserves which are drawn down below the recommended target will be re-built at the rate of a minimum of 33% of the deficit balance per year over three years, or sooner if practical.
- C. Unreserved Fund Balance Target -- The unreserved fund balance target for the Risk Management Fund shall be \$40,000. Should the ending fund balance drop below \$40,000 in any fiscal year, it will be re-built the following year. Ending unreserved balances in excess of \$40,000 will be used as a dividend to departments if the catastrophic reserves are fully funded or can be used as funding for additional expenditures in the safety program as directed by the City Manager and appropriated within the following budget year. If the excess is used as a dividend to departments, the funds will be returned to departments based on the prior year's experience.

CP 10.08 INVESTMENTS

10.08.010 Purpose

To minimize risk associated with investing the City's monies and ensure the availability of cash to meet expenditures, while maximizing earnings opportunities and minimizing idle funds. These policies provide direction for managing the City's investments.

10.08.020 Background

The City holds cash balances as part of its operations. The City invests balances in excess of daily needs in a variety of investment instruments as authorized by Oregon Revised Statutes on local government investments and the City's Administrative Policy on Investments. Investing monies has inherent risks; these risks are managed through the application of appropriate risk assessments and diversification, and following prudent rules for investing governmental funds. These policies establish and provide guidelines for the safe and efficient management of City funds, and the purchase and sale of investment instruments.

10.08.030 Scope

- A. Application of Policy -- These investment policies apply to all cash-related assets within the scope of the City's audited financial statements and held directly by the City. Funds held and invested by trustees or fiscal agents are excluded from these policies; however, such funds are subject to regulations established by the State of Oregon.
- B. Pooled Cash -- The City of Corvallis will make use of pooled cash to invest under the prudent investor rule. The rule states "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived."

10.08.040 Objectives

- A. The City's investment objectives are listed below, and can be summarized as primarily concerned with safety, legality and liquidity, with a secondary objective of return:
 - 1. Preserve capital and protect investment principal,
 - 2. Conform with federal, state and other legal requirements,

3. Maintain sufficient liquidity to meet operating requirements,
4. Diversify to avoid incurring unreasonable risks regarding specific security types or individual financial institutions,
5. Attain a market rate of return throughout budgetary and economic cycles,
6. Invest with the intent to hold until maturity.

10.08.050 Responsibility

- A. Authority -- The authority for investing City funds is vested with the City Manager, who, in turn, may designate the Finance Director as Treasurer to manage the day-to-day operations of the City's investment portfolio, place purchase and sell orders with dealers and financial institutions, and prepare reports as required. The Finance director may choose to use the services of a professional investment advisor if he/she believes that is most beneficial to the organization.
- B. Investment Council -- To assist the City Manager in carrying out this management responsibility for the investment program, the Investment Council has been created. The Investment Council shall be composed of the City Manager, the Finance Director, the City Attorney, and a citizen of the City of proven integrity and business ability. The City Council President, or the Council Vice-President if the Council President is unable to serve, shall serve ex-officio as a voting member.
- C. Investment Council Charge -- The Investment Council is responsible for providing advice with respect to the investment decisions, activities, and establishment of written procedures for investment operations. Monitoring of the portfolio shall be performed by the Investment Council at least quarterly and verified by the City's independent auditor at least annually. The Investment Council shall review investment reports, investment strategies, investment holdings, banking relationships, and the legality and probity of investment activities.
- D. Investment Council Meetings -- The Investment Council shall meet quarterly. At each meeting, the Investment Council reviews investment reports submitted by the City Treasurer reflecting investment activity for each of the immediately preceding three months. Acceptance of the report must be unanimous. Should the reports not be accepted, the reports shall be revised accordingly by the City Treasurer and resubmitted to the Investment Council at its next regularly scheduled meeting or sooner if requested.
- E. Investment Maturity Matches Cash Flow -- Recognizing that the City's need for funds is not constant, the City Treasurer should schedule investments in coordination with all funds such that there is as little idle cash as practical, consistent with the projected cash flow budget.
- F. Investment Administrative Policy -- The City Treasurer shall annually update the City's administrative policy for investments, to be reviewed and approved by the Investment Council prior to adoption. Substantive changes in the Investment Administrative Policy shall be submitted to the Oregon Short Term Fund Board for review after City Manager approval.

10.08.060 Investment Instruments/Vehicles

- A. Investment Instruments -- Funds of the City of Corvallis must be limited to those investments allowed by the statutes of the State of Oregon and as identified in the Investment Administrative Policy.

- B. Investment Diversification -- Funds of the City of Corvallis will be invested in accordance with diversification by financial institution, investment type, and maturity as outlined in the Investment Administrative Policy.

10.08.070 Reporting Requirements

- A. Annual Reports -- The City Treasurer shall submit an annual statement certifying compliance with the Investment Administrative Policy to the Investment Council, noting compliance throughout the most recently completed fiscal year. This statement shall be filed as soon as practical, but no later than August 31 of each year.
- B. Monthly Reports -- The City Treasurer shall provide the Investment Council with a Monthly Investment Report reviewing the compliance with the Investment Administrative Policy and providing data on investment instruments being held, as well as any narrative necessary for clarification. The Monthly Investment Report shall include summary information about all investments held in the City's portfolio as of the end of the month, and shall be issued and posted on the City's web site within 21 days after the end of the monthly reporting period.

CP 10.09 ACCOUNTING AND FINANCIAL REPORTING

10.09.010 Purpose

To provide Council leadership for the organization by stating the importance of a system of internal controls to be implemented and maintained to meet the goals of providing accurate and timely financial reports to the community and financial markets.

10.09.020 Background

Best practices state that the City Council must lead the organization's commitment to excellence in financial management through the adoption of policies stating clear expectations. The City of Corvallis maintains a financial management system that ensures transactions are appropriately recorded, assets are managed for the benefit of the community, and risk of fraud or financial loss is identified and minimized through a set of internal controls designed to manage the risk. The financial markets and other interested parties rely on the City's annual financial statements to ensure Corvallis bondholders the City's financial condition will allow the City to continue to make all required debt payments and meet all covenants.

10.09.030 Internal Controls

- A. Internal Control System -- The City shall establish and maintain a process that is designed to provide reasonable assurance that the City is achieving the following objectives:
 - 1. effective and efficient operations,
 - 2. reliable and accurate financial information,
 - 3. compliance with applicable laws and regulations, and
 - 4. safeguarding assets against unauthorized acquisition, use, or disposition.
- B. Annual Audit -- The City shall hire an independent external auditor to perform an annual audit of the financial statements, including tests of the internal controls. It is the City's objective that the financial statements receive an unqualified opinion, an opinion in which the auditor can state,

without reservation, that the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).

10.09.040 Financial System

- A. Purpose of the Financial System -- The financial system shall be used as the means of recording and reporting financial transactions in a way that will assist users in assessing the service efforts, costs and accomplishments of the City.
- B. Financial System Characteristics -- The City's accounting and reporting system shall demonstrate the following characteristics:
 - 1. reliability,
 - 2. accuracy,
 - 3. consistency,
 - 4. timeliness,
 - 5. efficiency,
 - 6. responsiveness,
 - 7. compliance with legal requirements, and
 - 8. conformance with GAAP.
- C. Funds -- The City shall establish and maintain only those funds that are necessary by law and for sound financial administration. The funds shall be structured in a manner consistent with GAAP, to maximize the City's ability to audit, measure and evaluate financial performance. The fund structure will be reviewed annually and the Finance Director will recommend changes to improve compliance with Council policies, financial planning, resource allocation and service delivery will be made to the City Manager at the beginning of the annual budget process. Adding, closing, or making significant changes to a fund shall be done by the City Council by adopting a resolution.

10.09.050 External Financial Reporting

- A. Comprehensive Annual Financial Report (CAFR) -- The City shall annually prepare and publish, by December 31st of each year, a CAFR in conformity with generally accepted accounting principles. The CAFR shall include but not be limited to:
 - 1. an explanation of the nature of the reporting entity,
 - 2. the extent of activities conducted by the City,
 - 3. comparison of actual activity to adopted budget,
 - 4. an explanation of the City's fiscal capacity,
 - 5. disclosure of short and long term liabilities of the City,
 - 6. capital assets reporting,
 - 7. cash policies and compliance reporting,
 - 8. accounting policies, controls and management responsibilities, and
 - 9. all other disclosures required by GAAP.

GLOSSARY OF TERMS USED IN FINANCIAL POLICIES

Accrual Basis of Accounting - The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Appropriation - Legal authorization granted by City Council to make expenditures and incur obligations.

Assessed Value - The value set by the County assessor on real and personal taxable property as a basis for levying taxes.

Assessments - An amount levied against a property for improvements specifically benefiting that property.

Balanced Budget - A budget in which the resources are equal to or greater than the requirements in each/every fund.

Benefits - Employee benefits mandated by state and federal law, union contracts, and/or Council policy. The most common forms of fringe benefits are pension plans, health and life insurance, vacation, sick and holiday leave, deferred compensation, automobile allowances, disability insurance, and educational and incentive pay.

Bonds - A written promise to pay a sum of money (principal or face value) at a future date (maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used to finance long-term capital improvements.

Budget - A plan of financial operation, embodying an estimate of proposed expenditures for a given period (typically a fiscal year) and the proposed means of financing them (revenue estimates). Upon approval by the City Council, the budget appropriation resolution is the legal basis for expenditures in the budget year.

CAFR (Comprehensive Annual Financial Report) - Prepared at the close of each fiscal year and published no later than December 31 of each year to show the actual audited condition of the City's funds and serves as the official public record of the City's financial status and activities.

Capital Budget - A plan of proposed capital expenditures and the means of financing them. The capital budget is usually enacted as part of the complete annual budget which includes both operating and capital outlays. The capital budget should be based on a capital improvement program.

Capital Improvement Program (CIP) - A plan for capital expenditures to be incurred each year over a fixed period of several future years, setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures.

Capital Outlay - Expenditures for operating equipment drawn from the operating budget. Capital outlay items normally include equipment that will last longer than one year and having an initial cost above \$5,000. Capital outlay does not include capital budget expenditures for construction of infrastructure such as streets, buildings, or bridges.

Contingencies - An appropriation of funds to cover unforeseen events which occur during the budget year. City Council must authorize the use of any contingency appropriations (not to be confused with Reserves).

Cost Allocation - A costing of local government services to identify the full cost of municipal services.

Council Goals - Broad goals established by the City Council at the outset of each two-year term to guide the organization in its activities and focus.

Debt Service - The amount of principal and interest that a local government must pay each year on net, direct-bonded, long-term debt plus the interest it must pay on direct short-term debt.

Deficit - (1) The excess of an entity's liabilities over its assets (see Fund Balance). (2) The excess of expenditures or expenses over revenues during a single accounting period. Direct Cost - A cost directly related to producing and/or providing related services. Direct costs consist chiefly of the identifiable expenses such as materials and supplies used to provide a service, the wages and salaries of personnel working to provide a service, and facility costs. These expenses would not exist without the program or service.

Equipment Replacement Schedule - A schedule of annual purchases to replace major equipment and vehicles that have met or exceeded their useful life to the City.

Expenditure - Total amount incurred if accounts are kept on an accrual basis; total amount paid if accounts are kept on a cash basis.

Financial Audit - A systematic examination of resource utilization concluding in a written report. It is a test of management's internal accounting controls and is intended to:

- Ascertain whether financial statements fairly present financial position and results of operations,
- Test whether transactions have been legally performed,
- Identify areas for possible improvements in accounting practices and procedures,
- Ascertain whether transactions have been recorded accurately and consistently, and
- Ascertain the stewardship of officials responsible for governmental resources.

Financial Condition - The City's ability to pay all costs of doing business and to provide services at the level and quality that are required for the health, safety, and welfare of the community, and that its citizens desire.

Financial Plans - A schedule that provides information about the expected future fiscal stability of City operations. The projections are for the operating funds of the City. Each financial plan, or proforma, includes a discussion about issues that are addressed in the proforma, as well as assumptions made about both revenues and expenditures for each fund.

Financial Policies - Administrative and Council policies established to govern the City's financial operations.

Fixed or Mandated Costs - These include expenditures to which the government is legally committed (such as debt service and pension benefits), as well as expenditures imposed by higher levels of government (such as for wastewater treatment facilities).

Fund - An independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and/or resources together with all related liabilities, obligations, reserves, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives.

Fund Balance - The difference between fund assets and fund liabilities of governmental and similar trust funds. The equivalent terminology within proprietary funds is Retained Earnings. (When the term "Fund Balance" is used in reference to Proprietary Funds, it is normally referring to the estimated budgetary-basis amount available for appropriations for budgeting purposes.) The Governmental Accounting Standards Board (GASB) has defined fund balance segments as follows:

- A. Non-spendable: Amounts inherently non-spendable or that must remain intact according to legal or contractual restrictions.
- B. Restricted: Amounts constrained to specific purposes by externally enforceable legal restrictions, such as those provided by creditors, grantors, higher levels of government, through constitutional provisions, or by enabling legislation.

- C. Committed: Amounts constrained by the City Council via a resolution or ordinance.
- D. Assigned: Amounts the City intends to use for a specific purpose. The authority to assign resources lies with the City's Finance Director.
- E. Unassigned: Amounts that are not categorized into one of the aforementioned classifications; these resources may be used for anything. Only the General Fund should show a positive unassigned fund balance. For other funds, a negative unassigned balance should be reported if more resources are used than are available in the fund.

GAAP- Generally Accepted Accounting Principles.

General Obligation Bonds - When a government pledges its full faith and credit to the repayment of the bonds it issues, then those bonds are general obligation (GO) bonds. Sometimes the term is also used to refer to bonds which are to be repaid from taxes and other general revenues.

Government Funds - These funds subscribe to the modified accrual basis of accounting and include the following types of funds:

- General Fund - The major source of revenue for this fund is taxes. There are no restrictions as to the purposes in which the revenues in this fund can be used
- Special Revenue Funds - The resources received by these funds are limited to a defined use, such as the Street Fund.
- Debt Service Funds - Funds used for paying principal and interest of debt on non-enterprise funds.
- Capital Project Funds - Resources from these funds are used for purchase or construction of long-term fixed assets.
- Permanent Funds - The resources received by these funds are limited to a defined use and only earnings may be spent. The Davidson Fund is the city's only permanent fund.

Grant - A contribution of assets by one entity to another. Grants are generally designated for a specific expenditure.

HNA – the Historic Norming Adjustment is the factor in each fund that results from actual experience that is usually better than projected, either because revenues perform better than expected, and/or expenditure budgets are not fully expended due to unpredictable events such as employee turnover. The HNA is trended over a period of time and projected in future years in the financial plans to give a more likely projection of fund balance than otherwise would be visible.

Indirect Cost - A cost incurred in the production and/or provision of related services that usually cannot be directly associated with any one particular good or service. Indirect costs encompass overhead including administrative costs such as wages of supervisory and administrative personnel, occupancy and maintenance of buildings, and utility costs. These costs would exist without the specific program or service.

Investment – Cash balances, securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals, or base payments.

Liabilities - The sum of all amounts that are owed at the end of the fiscal year, including all accounts payable, accrued liabilities, and debt.

Long-Term Debt - Present obligations that are not payable within a year. Bonds payable, long-term notes payable, and lease obligations are examples of long-term debt.

Master Plan - A comprehensive plan, normally covering a 5-10 year period, developed to guide delivery of specific services, identify future needs and challenges, and identify future infrastructure needs.

Modified Accrual Basis of Accounting - The accrual basis of accounting adapted to the governmental fund type under which revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period." Expenditures are generally recognized when the related fund liability is incurred.

One-Time Revenue - Revenue that cannot reasonably be expected to continue, such as a single-purpose federal grant, an interfund transfer, or use of a reserve. Also referred to as a non-recurring revenue.

Operating Budget - The appropriated budget supporting current operations. Most operations are found in the General, Special Revenue, Permanent, Enterprise, and Internal Service Funds.

Overlapping Debt - The net direct bonded debt of another jurisdiction that is issued against a tax base within part or all of the boundaries of the community.

Pay-As-You-Go Basis - A term used to describe the financial policy of a government which finances all of its capital outlays and/or improvements from current revenues rather than by borrowing.

Personnel Services - A category encompassing all salaries, fringe benefits, and miscellaneous costs associated with employee expenditures. Budget law also refers to this category as personnel services.

Proprietary Funds - These funds subscribe to an accrual basis of accounting and include the following types of funds:

- Enterprise Funds - Account for distinct, self-sustaining activities that derive the major portion of their revenue from user fees.
- Internal Service Funds - Account for goods and/or services provided to other funds or departments within the organization. Examples include the Vehicle and Equipment Maintenance and Data Processing Funds.

Reserved Balance - For budgetary purposes, this is the amount of fund balance that is not available for appropriation except for the uses defined for the specific reserve.

Resolutions - A legal document adopted by the City Council that directs a course of action. In relationship to the budget, resolution refers to the document that levies taxes and sets legal appropriation levels.

Restricted Revenue - Legally earmarked for a specific use, as may be required by state law, bond covenants, or grant requirements. For example, many states require that gas tax revenues be used only for street maintenance or street construction.

Revenue - Monies received or anticipated by a local government from either tax or non-tax sources.

System Development Charge (SDC) - A charge levied on new construction to help pay for additional expenses created by growth or to compensate for already existing capacity in key facilities and systems already in place which support the new development.

Transfer - Amounts distributed from one fund to finance activities in another fund. Shown as an expenditure in the originating fund and a revenue in the receiving fund.

Unfunded Liability - A liability that has been incurred during the current or a prior year, that does not have to be paid until a future year, and for which reserves have not been set aside. It is similar to long-term debt in that it represents a legal commitment to pay at some time in the future.